

Scenario-based question - Ford plc

Ford plc

Ford plc is a company which publishes a single textbook and provides tuition courses relating to that text. The following trial balance was extracted from the nominal ledger of Ford plc on 31 March 20X6.

	£	£
Manufacturing costs	4,450,000	
Administrative salaries	410,500	
Distribution costs	375,000	
Inventories at 1 April 20X5	113,400	
Freehold land and buildings		
Cost (land £1,750,000)	2,550,000	
Accumulated depreciation at 1 April 20X5		480,000
Plant and machinery		
Cost	620,000	
Accumulated depreciation at 1 April 20X5		337,000
Borrowings		100,000
Redeemable 4% preference shares		100,000
Trade receivables	37,500	
Trade payables		25,400
Retained earnings at 1 April 20X5		212,500
Equity share capital – 50p nominal value		400,000
Share premium		100,000
Preference share capital – 5% irredeemable £1 shares		200,000
Dividend paid	20,000	
Cash and cash equivalents	43,500	
Revenue		6,700,000
Finance costs	35,000	
	8,654,900	8,654,900

The following additional information is relevant

1.

I. The borrowings are repayable in five equal annual instalments, commencing on 1 April 20X6. The interest payable has been correctly calculated and included within finance costs. II. Revenue is made up of the following.

	£
Tuition fees	1,500,000
Book sales	5,100,000
Advances	100,000
	6,700,000

2. The tuition fees all relate to courses held during the year except for fees of £300,000 which relate to a 10 week course. Five weeks of this course had already been held by the year end. The remainder is to be held in June 20X6. The advances relate to the delivery of a new publication which Ford plc has commissioned and advertised heavily but which is not yet in production.
3. There were no movements of non-current assets during the year. Plant is depreciated on a 10% straightline basis, taking into account the month of sale or purchase. Freehold buildings are depreciated over their useful life of 40 years. Depreciation on plant is charged to cost of sales. Depreciation on freehold land and buildings is charged to administrative expenses.
4. At the year end the company was in the process of a legal action by one of its competitors which claims that Ford's textbook has breached copyright. The case is not due to be decided until June 20X6 but Ford plc's legal advisors think that the company has a 70% chance of losing the case and estimates that this would cost Ford plc £100,000.
5. One of Ford plc's customers who owed £10,000 at the year end was declared insolvent on 31 March 20X6. The liquidator does not expect to pay any money to creditors and the amount is considered irrecoverable.
6. Closing inventories at cost amounted to £120,000. Within this valuation is an over-allocation of fixed overheads, of £10,000.
7. The following should be accounted for at the year end.
Income tax of £350,000
The dividend on the 5% irredeemable preference shares.
The dividend on the 4% redeemable preference shares which is accrued at the year end.
8. Ford plc employed the services of a training and consultancy firm for a six month period commencing on the 1 February 20X6 for a total fee of £60,000. 50% of this fee is due for payment on 1 April 20X6, while the balance is to be paid within 30 days of the contract's conclusion. No record has been made in respect of this in the accounts of Ford plc. The contract fee should be included in administrative expenses.
9. Ford plc rent some additional office space for administrative staff. Rent is due quarterly in advance. Ford plc made a payment of £20,000 on 31 March 20X6, and this has been included in administrative expenses.
- 10 During the year, Ford plc issued a 1 for 4 bonus issue from share premium. This has not been reflected in the accounts.

Requirement

Prepare the statement of profit or loss for Ford plc for the year ended 31 March 20X6 and the statement of financial position at that date.

Statement of profit or loss for the year ended 31 March 20X6

Revenue (W5)	£	£
Cost of sales (W1)		
Gross profit		
Distribution costs (W1)		
Administrative expenses (W1)		
Profit/(loss) from operations		
Finance costs (W1)		
Profit/(loss) before tax		
Income tax expense		
Profit/(loss) for year		
Statement of financial position at 31 March 20X6		
ASSETS		
Non-current assets		

Property, plant and equipment		
Freehold land and buildings (W2)		
Plant and machinery (W2)		
Current assets		
Inventories (W1)		
Trade receivables		
Prepayments		
Cash and cash equivalents		
Total assets		
EQUITY AND LIABILITIES		
Capital and reserves		
Equity share capital (W6)		
Preference share capital (irredeemable)		
Retained earnings (W4)		
Non-current liabilities		
Redeemable 4% preference shares		
Borrowings		
Current liabilities		
Borrowings		
Accruals (W1)		
Irredeemable 5% preference dividend payable (W4)		
Redeemable 4% preference dividend payable (W1)		
Trade payables		
Deferred income (W3)		
Provision		
Income tax payable		
Total equity and liabilities		

Feedback:

1	2	3
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Cost of sales Available Answers -4515400.00 (2.5 Marks) -4505400.00 (1.25 Marks) -4453400.00 (1.25 Marks) Gross profit Distribution costs Available Answers -375000.00 (2.5 Marks)	Administrative expenses Available Answers -540500.00 (2.5 Marks) -440500.00 (2.5 Marks) -510500.00 (2.5 Marks) -520500.00 (2.5 Marks) -530500.00 (2.5 Marks) -550500.00 (2.5 Marks) -560500.00 (2.5 Marks) -584250.00 (2.5 Marks) -400500.00 (1.25 Marks) -420500.00 (1.25 Marks) -450500.00 (1.25 Marks) -460500.00 (1.25 Marks) -484250.00 (1.25 Marks) -490500.00 (1.25 Marks) -500500.00 (1.25 Marks) -554250.00 (1.25 Marks) -564250.00 (1.25 Marks) -570500.00 (1.25 Marks) -574250.00 (1.25 Marks) -594250.00 (1.25 Marks) -604250.00 (1.25 Marks)	Inventories Available Answers 110000.00 (1.25 Marks) Prepayments Available Answers 20000.00 (1.25 Marks) Trade recievables Available Answers 27500.00 (2.5 Marks) 37500.00 (1.25 Marks) Cash Available Answers 43500.00 (1.25 Marks) Total assets Equity share capital Available Answers 500000.00 (1.25 Marks) 400000.00 (1.25 Marks) Preference share capital Available Answers 200000.00 (1.25 Marks) Retained earnings Available Answers 812600.00 (2.5 Marks) Redeemable 4% preference shares Available Answers 100000.00 (1.25 Marks) Borrowings Available Answers 80000.00 (2.5 Marks) Accruals Available Answers 20000.00 (2.5 Marks) Irredeemable 5% preference dividend payable Trade payables Available Answers 25400.00 (2.5 Marks) Deferred income Provision
4		
Available Answers 100000.00 (1.25 Marks) Income tax payable Available Answers 350000.00 (1.25 Marks) Total Redeemable 4% preference dividend payable (W1) Redeemable 4% preference shares Retained earnings (W4) 2 Borrowings (100,000*4/5) 2 Income tax payable 2 Cash And Cash Equivalents sub 2 Plant and equipment total	5	

1) The purpose of the financial statement that lists an entity's total assets and total capital and liabilities is to show:

- a) the financial performance of the entity over a period of time
- b) the amount the entity could be sold for in liquidation
- c) the amount the entity could be sold for as a going concern
- d) the financial position of the entity at a particular moment in time

Feedback:

D. Materiality Information's relevance is affected by its materiality. A, B and C are all characteristics contributing to information being a faithful representation of what it claims to represent.

2) The directors of Lagon plc wish to omit an item from the company's financial statements on the grounds that it is commercially sensitive. Information on the item would influence the users of the information when making economic decisions. **Requirement**

According to IAS 1, *Presentation of Financial Statements* the item is said to be:

- a) Neutral b) prudent c) material d) understandable

Feedback:

C The ICAEW Code of Ethics applies to its members, employees of member firms and ICAEW students. It also applies to affiliates and where applicable, member firms.

3) Which of the following statements best describes ethical guidance in the UK?

- a) The ICAEW Code of Ethics applies to its members only.
- b) The ICAEW Code of Ethics applies to its members and employees of member firms only.
- c) The ICAEW Code of Ethics applies to its members, employees of member firms and ICAEW students.
- d) The ICAEW Code of Ethics applies to its members, employees of member firms, ICAEW students and all other members of UK accountancy bodies.

Feedback:

C The lengthening of the period of credit given to customers

Extending the credit period given to customers means that while there are increased profits as the level of sales increases, it takes longer to collect cash from those customers.

4) At 1 April, a business had a balance of £100 (the imprest amount) in petty cash. At the end of April, it had vouchers totalling £38, a receipt for a refund for stationery of £4 and a note to say that an employee was reimbursed £12 in respect of postage costs, but no voucher was issued. **Requirement**

How much does the business need to reinstate its imprest balance at 30 April?

- a) £34 b) £46 c) £54 d) £66

Feedback:

C Credit note

A credit note is issued by a supplier when a customer returns goods to them (C). Invoices (A) are issued when goods are originally sold, on the basis of a delivery note (D) which shows what exactly has been sold. A remittance advice (B) is sent in by the customer to the supplier with payment.

5) Winn Ltd has opening trade payables of £24,183 and closing trade payables of £34,655. Purchases for the period totalled £254,192 of which £31,590 related to cash purchases.

Total payments recorded in the payables ledger for the period were:

- a) £212,130 b) £233,074 c) £243,720 d) £264,664

B Debit entries decrease income and increase assets.

Debit entries increase assets and expenses and decrease income, equity and liabilities. Credit entries increase income, liabilities and equity and decrease assets and expenses.

6) Anchor Ltd is preparing its financial statements. After transferring the balances on all the income and expense ledger accounts to the profit and loss ledger account, the total credits in the profit and loss ledger account exceed the total debits by £4,000.

Which **two** of the following statements about Anchor Ltd are correct?

- a) Anchor Ltd has made a loss for the year of £4,000.
- b) Anchor Ltd has made a profit for the year of £4,000.
- c) To begin to calculate the closing capital account balance, Anchor Ltd should credit the capital account and debit the profit and loss ledger account with £4,000.
- d) The opening balance on the profit and loss ledger account for the next reporting period is £4,000 credit.
- e) The closing balance on the profit and loss ledger account of £4,000 should be deducted from the capital account to give the profit for the year.

Feedback:

C £62,000

£98,000 – £36,000 = £62,000 (the capital account is the balancing figure for the trial balance)

Non-current assets	85000	
Trade receivables	7000	
Trade payables		3000
Bank loan		15000
Accumulated depreciation, non-current assets		15000
Inventory	4000	
Accruals		1000
Prepayments	2000	
Bank overdraft		2000
Capital (balancing figure)		62000
	98,000	98,000

7) Smock Ltd's draft profit for the year is £324,700. After the draft profit was calculated, the following issues were discovered.

- Debts of £6,800 should have been written off as irrecoverable at the year end, but the journal entry was not posted.
- The accounting software had automatically calculated and recorded depreciation, but the standing data was found to be incorrect. The depreciation rate for cars should have been updated to 20% straight-line at the start of the year, but was left as 25% straight-line in error. The balance on the car cost account at the year end was £24,000. There were no additions or disposals of cars in the year.

What is Smock Ltd's corrected profit for the year after accounting for the above issues?

- a) £323,500
- b) £319,100
- c) £313,100
- d) £316,700

Feedback:

B Direct debit shown on bank transaction report only

C Bank charges Cash at bank account: The direct debit shown on bank transaction report only (B) will need to be recorded in the accounting system, as will the bank charges (C). Deposits credited after date (A) and cheque presented after date (E) have already been accounted for correctly and would appear on the bank reconciliation. The bank error would also appear on the bank reconciliation and would require correction by the bank.

8) The following information relates to a bank reconciliation. The balance in the cash at bank account before taking the items below into account was £8,970 overdrawn.

1. Bank charges of £550 on the bank statement have not been entered in the cash at bank account.
2. The bank has credited the account in error with £425 which belongs to another customer.
3. Electronic payments totalling £3,275 made shortly before the year end have been entered in the cash at bank account but have not yet cleared the bank statement.
4. Cash receipts totalling £5,380 have been correctly entered on the debit side of the cash at bank account but have not been paid into the bank.

What was the overdrawn balance as shown by the bank statement?

- a) £6,990 b) £10,650 c) £11,200 d) £11,625

Feedback:

A Staint plc paid an invoice for £26 even though it had recorded a credit note that Rochelle had issued in respect of this amount. Balances in the payables ledger are normally credit, representing amounts Staint plc owes to its credit suppliers. If Staint paid an invoice that it did not owe (because a credit note had been issued), a debit balance would arise. The debit balance represents the amount the supplier, Rochelle, now owes to Staint plc. B and C would have no effect yet on Rochelle's account.

D is incorrect as paying £26 too little on an invoice would leave a credit balance on the account.

Available Answers

- £11,200 (2.5 Marks)

9) The following information relates to Camberwell plc's year-end inventory of finished goods.

	Direct costs of materials and labour	Production overheads incurred	Expected selling and distribution overheads	Expected selling price
Inventories category 1	2,470	2,100	480	5,800
Inventories category 2	9,360	2,730	150	12,040
Inventories category 3	1,450	850	190	2,560
	<u>13,280</u>	<u>5,680</u>	<u>820</u>	<u>20,400</u>

At what amount should finished goods inventory be stated in the company's statement of financial position?

- a) £13,280 b) £18,960 c) £18,760 d) £19,580

	£
Opening inventory	7,200
Purchases	76,500
Delivery Inwards	50
Less closing inventory	(8,100)
Cost of sales	75,650

Available Answers

- £18,760 (2.5 Marks)

10) For the year ended 31 October 20X3 a company carried out a physical count of inventory on 4 November 20X3, leading to an inventory cost at this date of £483,700.

The following transactions took place between 1 November 20X3 and 4 November 20X3:

1. Goods costing £38,400 were received from suppliers.
2. Goods that had cost £14,800 were sold for £20,000.
3. A customer returned, in good condition, some goods which had been sold to him in October for £600 and which had cost £400.
4. The company returned goods that had cost £1,800 in October to the supplier, and received a credit note for them. What amount should be shown in the company's financial statements at 31 October 20X3 for closing inventory, based on this information?
a) £458,700 b) £505,900 c) £508,700 d) £461,500

Feedback:

A £4,460 Closing inventory = 200 + 1,000 – 700 + 800 + 300 – 400 – 500 = 700 units in closing inventory.

			£
FIFO	400	@ 6.20	2,480
	<u>300</u>	@ 6.60	<u>1,980</u>
	<u>700</u>		<u>4,460</u>

Available Answers

- £461,500 (2.5 Marks)
11) During the year ended 31 March 20X4 Boogie plc suffered a major fire at its factory, in which inventory that had cost £36,000 was destroyed. An insurance payment of 80% of the cost has been agreed but not received at the year end.

Which of the following correctly completes the journal entry too take account of these matters? Debit trade and other receivables with £28,800 and:

- a) Debit Administrative expenses £36,000, Credit Purchases £28,800, Credit Revenue £36,000
- b) Debit Administrative expenses £7,200, Credit Purchases £36, 000
- c) Debit Administrative expenses £36,000, Credit Purchases £36,000, Credit Other income £28,800
- d) Debit Administrative expenses £7,200, Credit Inventory £36,000

Feedback:

c) Debit Administrative expenses £36,000, Credit Purchases £36,000, Credit Other income £28,800

To calculate cost of sales correctly the purchases figure should only take into consideration the goods purchased for resale. Therefore, it is necessary to reduce purchases, not inventory, by the cost of the inventory destroyed (Credit Purchases £36,000). This cost to the business should be shown under administrative expenses in the statement of profit or loss (Debit Administrative expenses £36,000). The sum due from the insurance company of £28,800 should be treated as part of other income, not revenue, as it is from a non-trading source (Credit Other income £28,800).

12)The following issues arose while Atkins Ltd was preparing its financial statements for the year to 31 December 20X2.

- a) £350 was received in December 20X2 in respect of a debt which had been written off in the previous year. The receipt was correctly included in the cash at bank account, but the computerised accounting system was unable to match this transaction and posted the other side of the entry to a suspense account.
- b) The directors determined that that the allowance for receivables should be reduced from £900 to £800 at the year end.

What journal entries should Atkins Ltd make to account for the above issues?

- a) Debit Irrecoverable debts expense £450, Credit Suspense £350, Credit Allowance for receivables £100
- b) Debit Allowance for receivables £800, Credit Suspense £350, Credit Irrecoverable debts expense £450
- c) Debit Irrecoverable debts expense £450, Debit Suspense £350, Credit Allowance for receivables £800
- d) Debit Allowance for receivables £100, Debit Suspense £350, Credit Irrecoverable debts expense £450

Feedback:

D Debit Suspense £58, Debit Irrecoverable debts expense £9, Debit Allowance for receivables £25, Credit Cash at bank £92

For (3), the entry made was Debit Cash £58, Credit Suspense £58; the suspense account entry must be reversed to the credit of the irrecoverable debts expense account.

SUSPENSE

	£		£
Irrecoverable debts expense (3)	<u>58</u>	b/d	58
	<u>58</u>		58

ALLOWANCE FOR RECEIVABLES

	£		£
Irrecoverable debts expense (2) (bal fig)	25	b/d	500
c/d	<u>475</u>		
	<u>500</u>		500

IRRECOVERABLE DEBTS EXPENSE

	£		£
Cash at bank (1)	92	Allowance for receivables (2)	25
		Suspense (3)	58

The net debit to the irrecoverable debt expense account is therefore $(92 - 25 - 58) = £9$.

CASH AT BANK

	£		£
		Irrecoverable debts expense (1)	92

LO 1d, 2d

Available Answers

Debit Allowance for receivables £100, Debit Suspense £350, Credit Irrecoverable debts expense £450 (2.5 Marks)

13) As at 30 November 20X4 Whitley plc had accrued distribution costs of £5,019 and prepaid distribution costs of £2,816. On 1 December 20X4 the bookkeeper processed the following opening journal:

Debit Prepayments £2,816, Debit Distribution costs £2,203, Credit Accruals £5,019.

During the year to 30 November 20X5 cash was paid in respect of distribution costs of £147,049 and was correctly posted to the distribution costs account. At the year end, Whitley plc's bookkeeper correctly processed closing journals to set up an accrual of £4,423 and a prepayment of £3,324 in respect of distribution costs.

Which of the following journals should Whitley plc process as at 30 November 20X5 to correct the three accounts?

- a) Debit Accruals £10,038, Credit Prepayments £5,632, Credit Distribution costs £4,406
- b) Debit Accruals £5,019, Credit Prepayments £2,816, Credit Distribution costs £2,203
- c) Debit Distribution costs £4,406, Debit Prepayments £5,632, Credit Accruals £10,038
- d) Debit Distribution costs £2,203, Debit Prepayments £2,816, Credit Accruals £5,019

Feedback:

B an accrual of £7,875

Having paid its 20X4/X5 fee in advance, Butters plc is now paying its 20X5/X6 fee in arrears. The amount unpaid at 30 June 20X5 will therefore be an accrual. There are outstanding fees for the period 1 March–30 June 20X5, which is four months. The accrual is therefore $£21,000 \times 1.125 \times 4/12 = £7,875$ (B).

Available Answers

Debit Accruals £10,038, Credit Prepayments £5,632, Credit Distribution costs £4,406 (2.5 Marks)

14) Bez plc draws up financial statements to 31 December in each year. It pays internet server charges for each year ending 30 April in two equal instalments, on 1 May and 1 November, in advance. It also pays telephone rental charges quarterly in arrears at the end of February, April, July and November. The total internet server

charge for the year to 30 April 20X6 was £9,000. Telephone rental charges for the year commencing 1 July 20X5 were £7,440.

What was the prepayment for internet server charges included in Bez plc's statement of financial position at 31 December 20X5?

- a) £1,500 b) £3,000 c) £2,250

What was the accrual for telephone rental charges included in Bez plc's statement of financial position at 31 December 20X5?

- d) £1,860 e) £1,240 f) £620

Feedback: sub:1

B,F

Unless told otherwise we can assume that all charges accrue evenly in the period.

The internet server charge payment of £4,500 made on 1 November 20X5 covers the six months to 30 April 20X6. Of this payment, four months is a prepayment covering the period 1 January to 30 April 20X6, an amount of $(4/6 \times £4,500) = £3,000$ (B).

The telephone rental payments are in arrears, so when the last payment for 20X5 is made on 30 November, Bez plc still owes one month (December) of rental, which is $(£7,440 \times 1/12) = £620$ (F). LO 1d, 3b, 3c

sub 2: B,F

Unless told otherwise we can assume that all charges accrue evenly in the period.

The internet server charge payment of £4,500 made on 1 November 20X5 covers the six months to 30 April 20X6. Of this payment, four months is a prepayment covering the period 1 January to 30 April 20X6, an amount of $(4/6 \times £4,500) = £3,000$ (B).

The telephone rental payments are in arrears, so when the last payment for 20X5 is made on 30 November, Bez plc still owes one month (December) of rental, which is $(£7,440 \times 1/12) = £620$ (F). LO 1d, 3b, 3c **sub 1**

Available Answers

- £3,000 (Correct) **sub 2**

Available Answers

- £620 (Correct)

15) Stripes plc purchased new machinery on 1 August 20X4 for £38,000. The scrap value of the machinery at the end of its six-year useful life has been assessed as £2,000. Stripes plc's policy is to calculate depreciation monthly on the straight-line basis.

The depreciation charge in Stripes plc's statement of profit or loss for year ended 31 March 20X5 should be:

- a) £4,000 b) £3,500 c) £6,000 d) £4,500

Feedback:

A 1 and 3 only Purchased goodwill is retained in the statement of financial position subject to an impairment review. LO 1d, 3c

Available Answers

- £4,000 (2.5 Marks)

16) Yvette purchased some plant on 1 January 20X0 for £38,000. The payment for the plant was correctly entered in the cash at bank account but was incorrectly entered on the debit side of the plant repairs account. Yvette charges depreciation monthly on the straight-line basis over five years and assumes no scrap value at the end of the life of the asset.

How will Yvette's profit for the year ended 31 March 20X0 be affected by the error?

- a) Understated by £30,400 b) Understated by £36,100
c) Understated by £38,000 d) Overstated by £1,900

Feedback:

B Understated by £36,100

The journal entries to correct the mis-posting are:

Debit Property, plant and equipment £38,000, Credit Plant repairs £38,000, and Debit Depreciation expense £1,900, Credit Accumulated depreciation £1,900

Depreciation is calculated as $\text{£}38,000 / 5 \text{ years} \times 3/12$. Profit is understated by $\text{£}38,000 - \text{£}1,900 = \text{£}36,100$

LO 2a

Available Answers

- Understated by £36,100 (2.5 Marks)

17) Morse plc has the following note to its statement of financial position relating to plant and machinery as at 31 May.

	2007	2006
	£	£
Cost	110,000	92,000
Accumulated depreciation	<u>72,000</u>	<u>51,000</u>
Carrying amount	<u>38,000</u>	<u>41,000</u>

During the year to 31 May 20X7, the following transactions occurred in relation to plant and machinery:

Additions £39,000; Loss on disposals £2,000; Depreciation charge £27,000

What were the proceeds from disposals of plant and machinery received by Morse plc in the year to 31 May 20X7?

- a) £7,000 b) £8,000 c) £13,000 d) £17,000

Feedback:

C £23,375

Cost less four months' depreciation = $\text{£}25,500 - \text{£}2,125 = \text{£}23,375$ LO 2a

mAvailable Answers

- £13,000 (2.5 Marks)

18) Grease plc is a large company with a share capital of 3 million 20p equity shares. To raise funds, it has made a 1 for 4 rights issue of its equity shares at £3.60 per share. The rights issue was fully taken up but only £1.9 million had been paid up at the year end, 30 September 20X2. Grease plc correctly debited cash at bank with £1.9 million and recorded the other side of the transaction in the suspense account.

Which adjustment should Grease plc make to correctly record the rights issue?

- a) Debit Other receivables £2,700,000, Credit Share capital £150,000, Credit Share premium £2,550,000
b) Debit Suspense £1,900,000, Debit Other receivables £800,000, Credit Share capital £750,000, Credit Share premium £1,950,000.
c) Debit Other receivables £800,000, Credit Share capital £150,000, Credit Share premium £650,000
d) Debit Suspense £1,900,000, Debit Other receivables £800,000, Credit Share capital £150,000, Credit Share premium £2,550,000.

Feedback:

B Share capital £210 million, Share premium £60 million

£m			£m
		Bal b/d	100
		Share premium (bonus)	50
Bal c/d	<u>210</u>	Cash at bank	60
	<u>210</u>		210

SHARE PREMIUM

	£m		£m
Share capital (bonus)	50	Bal b/d	80
Bal c/d	60	Cash at bank (rights)	30
	<u>110</u>		110

LO 1d, 1e, 3c

Available Answers

Debit Suspense £1,900,000, Debit Other receivables £800,000, Credit Share capital £150,000, Credit Share premium £2,550,000 (2.5 Marks)

19) Lake plc makes purchases on credit for £9,801 and purchases for cash of £107 in the year ended 31 January 20X4. The company's purchases accruals need to be £75 less than at the previous year end, and prepayments need to be £60 less.

What is the figure for purchases included in cost of sales in Lake plc's statement of profit or loss for the year ended 31 January 20X4?

- a) £9,893 b) £9,923 c) £9,786 d) £9,908

Feedback:

C Debit Share premium, Credit Share capital

A bonus issue does not involve cash but can be financed from the share premium.

Available Answers

- £9,893 (2.5 Marks)

20) An extract from the statement of financial position for Highmead has the following balances:

	2005	2004
	£m	£m
Current liabilities		
Income tax payable	150000	10000

The tax expense in the statement of profit or loss for the year ended 20X5 was £160,000 and £150,000 in the year ended 20X4.

What is the amount of tax that Highmead paid or received in the year ended 20X5?

- a) £20,000 paid b) £20,000 received c) £10,000 paid d) £10,000 received

Feedback:

D 2, 3 and 4

Loss on sale of non-current assets should be added back to profit before tax. LO 3c

Available Answers

- £20,000 paid (2.5 Marks)

21) The following extracts are taken from the financial statements of Radio for the years ended 31 March 20X4 and 20X5:

Statement of financial position extract:

	20X5	20X4
	£	£
Inventories	310,600	363,700
Trade receivables	312,000	299,500
Trade payables	277,200	269,400

Statement of profit or loss extract:

☐ £815,600

☐ £845,600

Feedback:

A £20,000 paid

TAX PAID

	£		£
Cash paid	20,000	b/fwd	10000
c/fwd	<u>150,000</u>	Tax expense	160000
	<u>170,000</u>		170000

LO 3c

Available Answers

	20X5
	£
Operating profit	797,200
Finance charge	<u>(15,000)</u>
Profit before tax	782,200
Income tax	<u>(219,000)</u>
Profit for the period	563,200

- What is the cash generated from operations to be included in the statement of cash flows for the year ended 31 March 20X5?

a) £626,600 b) £748,800 c) £815,600 d) £845,600 (2.5 Marks)

22) Which of the following transactions are not recorded in a company's cash at bank account?

- a) Bonus issue of shares
- b) Sale of goods for cash to a customer
- c) Receipt of loan from a bank
- d) Purchase for cash of shares in another company

Feedback:

A Bonus issue of shares

The bonus issue of shares (A) does not involve cash, the double entry is Debit Share premium, Credit Share capital.

Options B, C and D do involve cash and would be recorded in the cash at bank account. LO

1c, 1d

Available Answers

- Bonus issue of shares (2.5 Marks)

23) Declan and Indiah are in partnership, sharing profits 3:2.

On 1 July 20X4 Calum joins the partnership. Under the new partnership agreement profits will be shared by Declan, Indiah and Calum 5:3:2 respectively with the following annual salaries. Indiah £40,000 pa Calum £48,000 pa Profit accrues evenly over the year. The partnership profit at 31 December 20X4 was £450,000. How should the profits be allocated for the year ended 31 December 20X4?

	Declan	Indiah	Calum
A.	£229,500	£165,900	£54,600
B.	£236,500	£160,900	£52,600
C.	£225,000	£135,000	£90,000
D.	£225,000	£164,300	£60,200

Feedback:

C overstated by £800 The accrual should have increased expenses by £400 but instead expenses were decreased by £400 leading to an overstatement of profit of £800.

Available Answers

D|£225,000|£164,300|£60,200 (Correct)

24) Gina, Hardeep and Iona are in partnership, preparing their accounts for the year to 31 December each year.

The profit-sharing arrangements are as follows:

Until 30 June 20X3: annual salaries Hardeep: £40,000, Iona: £20,000, balance to be split 3:1:1.

From 1 July 20X3 salaries to be discontinued, profit to be divided 5:3:2.

The profit for the year ended 31 December 20X3 was £400,000 before charging partners' salaries, accruing evenly through the year and after charging an expense of £40,000 which it was agreed related wholly to the first six months of the year.

How should the profit for the year be divided among the partners?

Gina	Hardeep	Iona
a.	£182,000	£130,000 £88,000
b.	£200,000	£116,000 £84,000
c.	£198,000	£118,000 £88,000
d.	£180,000	£132,000 £88,000

Feedback:

B £11,900

Decrease in net assets	11025
Capital introduced	24000
Drawings (875 × 12)	(10500)
Drawings	(2625)
Loss	11900

LO 1d, 1e, 3a

Available Answers

- A|£182,000|£130,000|£88,000 (Incorrect)
- B|£200,000|£116,000|£84,000 (Correct)
- C|£198,000|£118,000|£88,000 (Incorrect)
- D|£180,000|£132,000|£88,000 (Incorrect)